

**SOUTH CAROLINA
SEA GRANT CONSORTIUM
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2000

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 8, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Directors
South Carolina Sea Grant Consortium
Charleston, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Sea Grant Consortium (the Consortium), solely to assist you in evaluating the performance of the Consortium for the fiscal year ended June 30, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of amounts collected and recorded by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

The Honorable Jim Hodges, Governor
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Members of the Board of Directors
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2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Consortium and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for all new employees and all those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Consortium to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

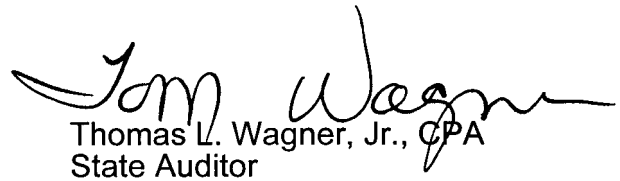
The Honorable Jim Hodges, Governor
and
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June 8, 2001

6. We obtained all monthly reconciliations prepared by the Consortium for the year ended June 30, 2000, and tested the final fiscal year 2000 reconciliations of balances in the Consortium's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Consortium's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Consortium's accounting records and/or in STARS. We judgmentally selected the year-end reconciliations for testing. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Consortium's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the finding reported in the Accountant's Comments section of the State Auditor's Report on the Consortium resulting from our engagement for the fiscal year ended June 30, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Consortium and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Consortium and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Consortium's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

The Honorable Jim Hodges, Governor
and
Members of the Board of Directors
South Carolina Sea Grant Consortium
June 8, 2001

This report is intended solely for the information and use of the Governor and of the governing body and management of the Consortium and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

RECONCILIATIONS

An effective internal control system includes procedures that ensure that employees timely detect and correct errors in the course of performing their assigned functions. Section 2.1.7.20 C. of the Comptroller General's STARS Policies and Procedures (STARS Manual) describes the benefits of and requirements for monthly reconciliations. Regular monthly reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports "... provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper." To ensure adequate error detection and to satisfy audit requirements, the State requires agencies to perform monthly reconciliations of cash, revenues, and expenditures. Furthermore, "Agencies with federal subfunds are required to perform monthly reconciliations between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency's records for each project and phase code." The cited STARS Manual section lists the following reconciliation requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer ...

Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate.

We reviewed the final [fiscal month 13 (FM 13)] fiscal year 2000 reconciliations in detail and noted the following deficiencies in the Consortium's reconciliation procedures:

1. Although reconciliations were signed by the independent reviewer, they usually lacked evidence of the date of independent reviews. [We could not determine if those reviews were performed timely.]
2. Balances in the Consortium's records differed from those on the Comptroller General's FM13 reports for nine expenditure accounts and four revenue accounts. The agency failed to identify all items comprising reconciling differences, to adequately explain some of the identified reconciling items. Furthermore, several errors existing at year-end arose earlier in the year but the Consortium had not detected and corrected them.
3. The Department did not reconcile federal fund transactions to its internal accounting system (SABAR) at the required level of detail. The SABAR general ledger report used for federal grant reconciliations does not separate account balances by grant year although transactions are recorded in SABAR at that level of detail.
4. The Consortium did not reconcile detail federal project and phase code balances to the CSA 467CM report.

Similar deficiencies in the Consortium's reconciliation procedures and documentation were described in our prior year report.

We again recommend the Consortium establish policies and procedures to ensure that adequately trained and knowledgeable employees are assigned reconciliation responsibilities. At a minimum, the agency's reconciliation process should comply with all reconciliation, error detection/correction, and documentation requirements in the STARS Manual.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

In order to prepare the Statewide Single Audit report for fiscal year 2000 and each year, the State Auditor's Office requires each State agency receiving federal funds to prepare and submit a schedule of federal financial assistance containing all of its federal funds. In our review of the Consortium's schedule, we noted the following deficiencies due to insufficient controls over the preparation of the schedule of federal financial assistance:

- Expenditures on the schedule for certain grants and in total differed from those recorded in the Consortium's general ledger.
- The Consortium did not reconcile individual federal project and phase code balances in SABAR to those in STARS using the CSA 467CM – Trial Balance by Subfund, Project, and GLA report.

The State Auditor's letter of instructions provides agencies with guidance and instructions for preparation of accurate and complete federal schedules. Section (B) of attachment 1 of the fiscal year 2000 instructions for completing the agencies' schedules of federal financial assistance states, "The amounts shown on the Total Federal Assistance line must be in agreement with the General Ledger (Receipts, Expenditures, Other Additions, Other Deductions, Ending Fund Balance). Any reconciling items should be fully explained." In addition, as described in our Reconciliations comment, the STARS Manual contains requirements for monthly reconciliations to the CSA 467CM report.

We recommend that the Consortium comply with the State Auditor's instructions and the STARS Manual reconciliation requirements and, in addition, establish and follow written procedures regarding the preparation of an accurate schedule of federal financial assistance each year.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the deficiencies reported in the Accountant's Comments section of the State Auditor's Report on the Consortium for the fiscal year ended June 30, 1999, and dated May 4, 2000. We determined that the Consortium has taken partial corrective action to improve its monthly reconciliation process. However, we have reported some similar findings in Reconciliations in Section A of this report.

MANAGEMENT'S RESPONSE

**RESPONSE TO ACCOUNTANT'S COMMENTS
S C SEA GRANT CONSORTIUM
FY00**

RECONCILIATIONS

We appreciate the recognition by the State Auditor's office that the Consortium has taken partial corrective action in our reconciliation process. We made every effort after the FY99 audit to put into place corrective actions and the Consortium's management was assured that reconciliations were being done on a timely basis and at the required level of detail.

During the 2nd quarter of FY01 the Consortium's accountant of many years resigned and was replaced. The Consortium now has in place new procedures as outlined and cited in Section 2.1.7.20 C of the Comptroller General's STARS Policies and Procedures Manual. Reconciliations are being performed on a monthly basis, are documented in writing in an understandable format with supporting documents, signed and dated by preparer, reviewed by other than the preparer, and errors are being promptly corrected both in the Consortium's records and/or in STARS.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The Consortium will reconcile balances for federal accounts to Trial Balance by subfund, project, and GLA (CG 467) STARS report.

To ensure that these deficiencies do not occur again in the future, a training program is being provided to ensure accountants are knowledgeable regarding the various features of the Consortium's internal accounting system, the proper accounting treatment and transaction coding for all types of transactions, and the proper method of recording all transactions in both SABAR and STARS.

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